

**Delivering sustainability and social impact though community engagement:**

**A people-centred approach**

**-roundtable report**-

On 26-27 September 2023, a roundtable entitled Delivering sustainability and social impact through community engagement: A people-centred approach, jointly organised by LSE IDEAS-London School of Economics and Political Science, ESSEC IRENE, UN Trust Fund for Human Security and the Knowledge Platform for Security & Rule of Law, the Netherlands, was held at ESSEC IRENE Paris, to discuss emerging policies and practices for managing local-level risks and opportunities as part of social impact and ESG strategies and potential contribution that incorporating a human security approach could make. The participants at the roundtable included representatives from the business sector, finance, policymakers, standard-setting bodies, think tanks and academia. Through a combination of individual in-person and online presentations and discussions, the participants addressed the challenges and opportunities of social impact performance and reporting practices and how to best leverage the human security approach and methodology to improve social impact practices and reporting.

The importance of environmental, social and governance impacts of corporate activity has been growing for some time, especially since the adoption of the Agenda 2030 which has galvanised global action to protect people and the planet, and achieve sustainability. As a result, significant changes in the policy context are underway to mainstream ESG and sustainability across sectors, regulatory and standard rating bodies. Those changes will require learning and adaptation, especially on the social impact aspect. The roundtable was designed to facilitate exchange of views and knowledge on best practices and policies. The presentations and discussions provided a springboard to identify some useful lessons that can help develop more effective approaches to measure social impacts of corporate activities based on qualitatively different engagement with those affected and to improve social impact reporting including though the application of human security approach.

**The changing policy context for the private sector social impact and community engagement practices**

European Union’s Corporate Sustainability Reporting Directive (CSRD), which entered into force in January 2023, is one of the recently by far the most significant policy changes regarding corporate social impact practices and reporting. The legislation sets the rules concerning the environmental and social impact companies have to report. It will provide information necessary to assess the impact of corporate activity on people and environments, and financial risks and opportunities



arising from climate change and other sustainability issues. The legislation applies to large companies and listed SME.

This initiative, conceived in the form of mandatory EU legislation, envisages a creation of the horizontal system of due diligence which all companies, except initially some SMEs, will be obliged to implement across supply chain. The companies will be required to monitor entire supply chain to identify risks and provide remedy, with different measures applying to direct and indirect suppliers. This will require significant adjustment at the company level which will be industry specific given the difference in supply change arrangements. Furthermore, a shift from voluntary compliance with the reporting requirements to a mandatory regime under the CSRD will require organisational changes at the company level as well as a change in the management perspective, mindset and behaviour that would underpin a new business model integrative of ESG.

The CSRD builds on the existing UN Global Compact and OECD guidance as universal and voluntary mechanisms and is intended to facilitate synergies among different types of corporate social impact reporting. The aim is to create more certainty for companies and investors and a level playing field in Europe and beyond. Aware of the challenges, both at the company as well as policy making level including at the level of national governments, the European Commission is taking cautious and staggered approach, to create conditions for the rolling out of the Directive. The main principle is to build on what the companies already do while simultaneously working on facilitating the adjustment process by adapting as well as developing a set of guidance materials aimed at companies in Europe and more broadly.

Although the Directive is certainly an ambitious step in the right direction to mainstream and improve ESG practices, there is a lack of clarity as to what extent it provides a framework to ensure that enhanced due diligence can deliver on the ambition of a genuine change in community engagement practices to improve the understanding of the social impact of corporate activity and how to communicate it. Another area where clarity is lacking at present is the impact of the CSRD on the remediation process, and what kinds of tools will be needed to organise it.

**The challenge of changing social impact practices**

In response to the proposed policy changes to mainstream social impact performance and improve reporting, participants expressed their concerns in views of varied experience of ESG practices, and different challenges each group faces. While there is overall support to supplant risk management outlook by concerns and action for positive social impact that the CSRD has taken forward, many problems exist when it comes to the implementation of this ambitious agenda.

For example, knowledge of social impact and ESG-related issues at the company level is overall modest, and learning and knowledge sharing among the companies and/or across industries is limited. There is a tendency is to work in silos which prevents collective action. Companies struggle to manage impacts across extended supply chains-- a problem particularly acute in some industries.



Reporting on social impact is complicated by the lack of appropriate (on the ground, forward looking) data and the proliferation of standards. Education and training are crucial but are often resisted due to costs.

Whereas the importance of stronger partnering between companies and other stakeholders to support and facilitate wide-ranging changes necessary to improve ESG performance and its reporting is widely recognised, working collaboratively is rare in practice.

**Learning lessons on social impact from environmental action and social innovation approach**

Examples of positive action in the area of environmental impacts including taking into account the concerns and conditions of the people and communities affected by business action highlight the importance of understanding the incentives and resistance to change across different stakeholder groups. This knowledge serves to inform social dialogue around transition and change. The consequences of for example net zero commitment are poorly understood by the communities on the ground, and this results in push back against proposed changes. Building relationships of trust is critical to enable informed conversation with local communities that will help companies implement climate change commitments.

For companies committed to just transition objectives, a lack of trust toward business sector on climate issues presents a significant problem. According to the Edelman Global Advisory group, companies are least trusted on climate issue; people trust themselves to know best what to do. Behind the absence of trust is that sustainability is not sufficiently incorporated into the company core activity. Not only is sustainability not sufficiently incorporated into business practices, but climate commitments are often contradicted by action on the ground. According to the public opinion, governments are more trusted to lead in responding to climate change than are companies.

Trust building is at the core of the social business approach taken by some compnaies based on the ideas of circular economy and social innovation. Holistic solutions which address environmental along with social justice issues have been successfully implemented through multistakeholder collaborations (and adapting commercial offers to social impact objectives). The best practice examples suggest the importance of business incentives and clear responsibilities for different stakeholders including that of the local and national governments.

Policy consistency is important for companies to be able to make the transition to net zero emission and other climate targets and serve to create a level playing field. The role of the financial sector in support of transitioning towards sustainable and inclusive economic and financial system is paramount and requires planning and commitment of the financial institutions themselves, as well as governments, companies and standard setting bodies. Pathfinders in the financial sector have repositioned themselves as ‘transition banks’ and are dedicated to changing their portfolios and practice to align finance flows with just transition agenda of environmental and social sustainability.



This involves excluding lending to clients not committed to the long term climate action; helping clients transition; engaging with governments and communities etc. Currently there is insufficient knowledge sharing about good practice around social impact and sustainability and changing this would contribute to trust building.

**A human security approach to manage social impact: Human Security Business Partnership Framework**

To address the challenges of delivering sustainability and social impact, an innovative framework of interactive governance labelled the Human Security Business Partnership Framework has been proposed. The Framework consist of two foundational blocks, namely a human security approach and partnering, and provides a blueprint to structure sustained multistakeholder dialogue anchored in company-community interactions. It puts local community at the centre of conversations about social impact at the local level, how it can be best measured, the ways to protect local community from harmful effects of business operations, and about working jointly and proactively to bring about mutually beneficial outcomes. The approach is premised on a shift away from a sole focus on risk minimisation to taking opportunities for positive action while enabling the local community to engage as a partner in its own right. The Framework is intended as a complement to the existing guidance available to companies to help design and implement different forms of community engagement, by contributing in four distinctive ways:

1. to better understand the local context
2. to foster relation-building through better interactions with communities
3. to improve the quality of social impact processes
4. to generate better long-term mutual benefits and profitability.

The discussion of the challenges and opportunities for businesses to respond meaningfully to growing expectations and demands for a more proactive approach to development and sustainability by leveraging the Human Security Business Partnerships Framework identified a critical lack of focus on local communities. Legislative and regulatory changes aimed at enhancing ESG, sustainability and impact performance will not be sufficient. Those will have to be accompanied by appropriate incentives-fiscal, educational, training- and a practice framework that encourages better data collection and utilisation to feed practice improvements.